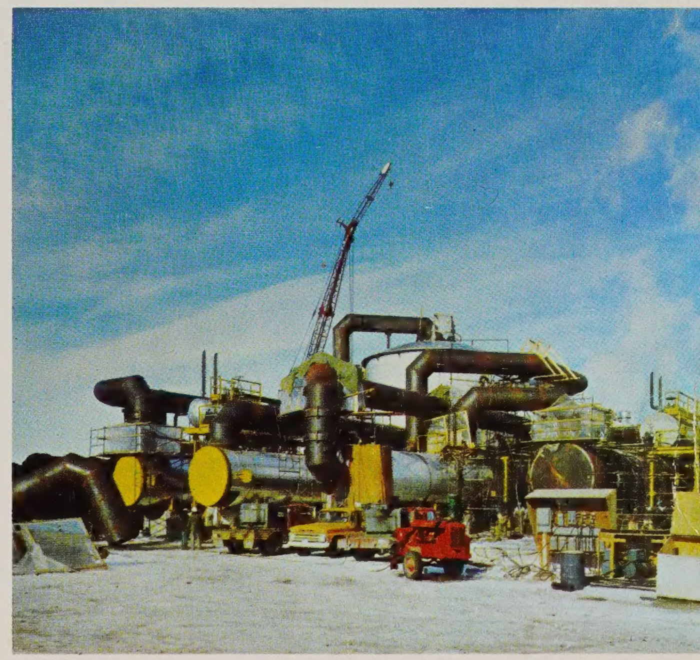
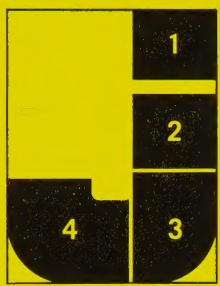
JEFFERSON LAKE PETROCHEMICALS OF CANADA LTD.



ANNUAL REPORT

1966



ON THE COVER

1. Sulphur Plant, Coleman, Alberta.
2. Plant construction — 1966, East Calgary.
3. Company Head Office, Calgary, Alberta
4. Sulphur loading for offshore export, Vancouver, B.C.

CONTENTS

The next Annual and General Meeting of the Shareholders of the Company will be held at the Royal York Hotel, Toronto, Canada on April 24, 1967 at 11 a.m. A formal notice of the meeting, together with a form of Proxy and Proxy Statement is enclosed with this report.

OFFICES

CALGARY, ALBERTA, CANADA
1000 Calgary House
550 - 6th Avenue S.W.

NEW ORLEANS, LOUISIANA 70130
1408 Whitney Building

PLANTS

CALGARY PLANT
Balzac, Alberta
Owned by Petrogas Processing Ltd.
Operated by Jefferson Lake Petrochemicals of Canada Ltd.

PEACE RIVER PLANT
Taylor, British Columbia

COLEMAN PLANT
Coleman, Alberta

DIRECTORS

MARSH A. COOPER
Partner, W. F. James, B. S. W. Buffam, and M. A. Cooper, Consulting Geologists, Toronto, Canada

EBERHARD P. DEUTSCH
Senior Partner, Deutsch, Kerrigan & Stiles, Attorneys at Law, New Orleans, Louisiana

ARMAND HAMMER *
President and Chairman of the Board, Occidental Petroleum Corporation, Los Angeles, California

J. HOWARD HAWKE
President of Gairdner & Company Limited, Toronto, Canada

HAROLD W. MANLEY *
President and Managing Director, Calgary, Canada

E. C. REID *
Senior Executive Vice-President, Occidental Petroleum Corporation, Bakersfield, California

CHARLES K. SCHWARTZ
Retired Senior Partner, Gottlieb & Schwartz, Attorneys at Law, Chicago, Illinois

ROBERT A. TEITSWORTH
Vice-President, Occidental Petroleum Corporation, Bakersfield, California

EUGENE H. WALET, JR. *
Chairman of the Board and Chief Executive Officers; President, Jefferson Lake Sulphur Company; Executive Vice-President, Occidental Petroleum Corporation, New Orleans, Louisiana

* Member of the Executive Committee

OFFICERS

EUGENE H. WALET, JR.
Chairman of the Board and Chief Executive Officers

HAROLD W. MANLEY
President and Managing Director

ARMAND HAMMER
Chairman of the Executive Committee

GERALD H. LEWIS, Vice-President

HOWARD B. SHELTON, Vice-President

W. A. TROUGHTON, Vice-President and Secretary

ROBERT A. TEITSWORTH, Vice-President

DONALD J. SHEDDEN, Treasurer

LOUIS E. PARISH, Controller

PAUL C. HEBNER, Assistant Secretary

GENERAL COUNSEL

Deutsch, Kerrigan & Stiles
New Orleans, Louisiana

JEFFERSON LAKE PETROCHEMICALS OF CANADA LTD.

AND WHOLLY-OWNED SUBSIDIARY

ANNUAL REPORT

1966

HIGHLIGHTS OF 1966

Net profits increased 38% over the year of 1965, and net cash revenues set new records.

Total cash dividends paid increased 17% to $740,799 equal to 32.5¢/share. In addition, a 4% stock dividend was distributed to shareholders of record at June 17, 1966, having a market value of $2,722,896 and equivalent to $1.22 per share.

98,912 Series "B" Warrants were converted to common stock providing the Company with $822,283.

Average sales value per Long Ton of sulphur f.o.b. plants increased substantially over the previous year.

At December 31, 1966, the Company had approximately $2,600,000 cumulative drilling and exploration costs available for income tax purposes in future years.

Gross developed and undeveloped oil and gas land holdings (leases, drilling permits, and drilling reservations) increased 282% to 2,343,192 acres. Net land holdings were 692,827 acres at the year end.

Company-operated Petrogas Processing Ltd. (31% owned) now has a firm contract to deliver 30 million cubic feet per day of pipe line gas to Trans-Canada Pipe Lines on a "take or pay" basis effective November 1, 1967, one year earlier than originally planned. Together with increased pipe line gas sales to Westcoast Transmission, Petrogas will have peak sales demand volumes of 196 million cubic feet per day after November 1, 1967.

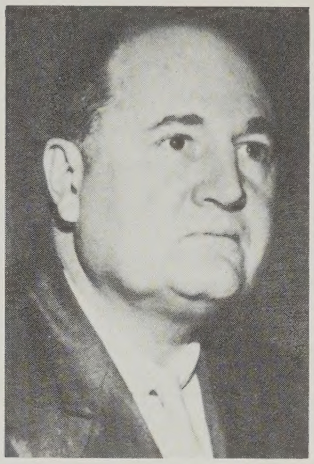
The Petrogas Calgary Plant completion of the expanded acid gas extraction and sulphur manufacturing facilities are now expected to be in operation by mid-April, approximately 45 days ahead of prior forecasts. Sulphur design capacity will increase to 2,000 long tons per day and will be the largest designed plant in North America producing elemental sulphur from sour natural gas.

Net income in 1966, was 41.5% of total revenues, compared to 36.0% in 1965.

FINANCIAL HIGHLIGHTS

	1966	1965	INCREASE (Decrease) Amount	%
Total Revenue	$ 7,048,087	$ 5,910,102	$ 1,137,985	19
Net Cash Income	3,481,343	2,582,344	898,999	35
Per Share	$ 1.53	$ 1.22	$ 0.31	25
Net Income	2,924,861	2,124,900	799,961	38
Per Share	$ 1.29	$ 1.00	$ 0.29	29
Dividends Paid	740,799	$ 634,089	106,710	17
Per Share	$ 0.325	$ 0.30	$0.025	8
4% Stock Dividend*	2,722,896	—	2,722,896	—
Per Share*	$ 1.22	—	$ 1.22	—
Working Capital	9,054,789	9,111,754	(56,965)	(1)
Shareholders' Equity	17,335,253	14,261,377	3,073,876	22

* values at average stock market price on June 17, 1966.



Eugene H. Walet, Jr.
CHAIRMAN OF THE BOARD

Harold W. Manley
PRESIDENT

TO THE SHAREHOLDERS AND EMPLOYEES:

Jefferson Lake Petrochemicals of Canada Ltd., in 1966, for the seventh consecutive year continued its growth and expansion and established record highs in gross sales, cash revenues and net profits. Sources of revenue were sales of pipe line gas, liquid products and sulphur, management fees and interest earned on investments.

EARNINGS AND DIVIDENDS

Net earnings for the year of $2,924,861, equivalent to $1.29 per share on the average number of shares outstanding, represented an increase of 38% over the net earnings of $2,124,900 for 1965. Net cash income increased 35% above 1965 to $3,481,343 equal to $1.53 per share. At December 31, 1966, the Company had increased its cumulative drilling and exploration costs deductible for income tax purposes in future years, to approximately $2,600,000; therefore no income tax provision is required. Cash dividends of $740,799 (32.5c per share), compared to $634,089 in 1965, were paid during the year, an increase of 17%. In addition, a 4% stock dividend, amounting to 89,100 shares, was distributed in July, 1966, on the 2,227,520 shares outstanding at June 17, 1966. This stock dividend had a market value of $2,722,896, equal to $1.22 per share on the record date.

PRODUCT SALES, RECOVERABLE RESERVES, AND REVENUES

The Company's working interest product sales for 1966 had an increase of 57% for natural gas liquids and crude oil to 414,900 barrels, vs. the 264,100 barrels in 1965; a small increase in pipe line gas sales to 11.4 billion cubic feet, as compared to the 1965 volumes of 11.3 billion cubic feet, despite the fact that no new plant capacity was available to produce this product; and a decrease of elemental sulphur to 175,300 Long Tons, vs. the 1965 results of 225,700 Long Tons.

Our working interest share of recoverable reserves at December 31, 1966, estimated by independent petroleum engineering firms and after deducting 1966 production, were: (a) pipe line sales gas at 349.3 billion cubic feet; (b) natural gas liquids and crude oil at 7,954,600 barrels; and, (c) elemental sulphur at 7,913,600 Long Tons.

Total revenue from all sources in 1966 increased 19% to $7,048,087 as compared to $5,910,102 in 1965 (after royalties). Sulphur sales, f.o.b. plants, increased 19% to $3,984,867; revenues from crude oil and natural gas liquids were $871,949, an increase of 33%; and pipe line gas sales were $1,472,520, a decrease of 4%. The Company's net income, as a percentage of total revenues, increased to 41.5% in 1966, compared to 36.0% in 1965.

FINANCIAL

At December 31, 1966, the Company had a strong working capital position amounting to \$9,054,789, a ratio of current assets to current liabilities of 6.5 to 1, and reflected shareholders' equity of \$17,335,253, an increase of \$3,073,876 (22%) over the previous year-end. The exercise of 98,912 Series "B" Warrants converted to the Company's common stock and 7,520 employee stock options exercised during the year provided total additional funds of \$889,814. The charts included in this report show the principal growth factors of the Company over the past five years.

OUTLOOK FOR THE COMPANY

The Company, in 1966, expanded its geological staff, which enabled increased study and interpretation of active areas in Western Canada, and it accelerated its aggressive acquisition of prospective oil and gas land holdings in lease, drilling permits and reservations. At year-end, a working interest was held in 2,343,192 gross acres, or an increase of 1,730,045 gross acres over the year-end of 1965. Principal areas of acquisition were in the Alberta sour gas trend of the Okotoks-Calgary-Olds area; the Keg River reef basin in Northwestern Alberta; the Winnipegosis reef trend in Saskatchewan; and, the British Columbia gas fields. Exploration and/or development is planned for these areas during the year of 1967.

World demand for elemental sulphur continued to exceed supply; consumption exceeded production and shortage of this vital natural resource is expected throughout 1967.

The Trans-Canada Pipe Line Company's gas purchase sales contract from the Petrogas Calgary Plant of 30 million cubic feet per day has been accelerated from the initial "take or pay" delivery date of November 1, 1968, to November 1, 1967. The Westcoast Transmission pipe line gas sales purchases will increase to 125 million cubic feet per day average on November 1, 1967. The pipe line gas sales from the Petrogas Calgary Plant, under long-term firm contracts, will reach an average of 155 million cubic feet daily compared to the existing contract quantities of 110 million cubic feet per day. These accelerated gas deliveries will permit maximum sulphur production at the Petrogas Calgary Plant approximately twelve months sooner than forecast in 1966; or approximately 500,000 Long Tons in 1967 and in excess of 600,000 Long Tons in 1968, which compares to its 1966 production of 229,179 Long Tons of sulphur.

The completion of the second phase of the Petrogas Calgary Plant expansion (acid gas extraction and sulphur manufacturing units) is now scheduled for April 10, 1967, approximately forty-five days sooner than previously forecasted by the contractor.

The Directors and Officers of your Company are encouraged by the progress of the past year and are confident that the future affords great opportunity for continued aggressive policy toward growth and expansion, and increased earnings for the Company and its shareholders. We express appreciation to the shareholders for their confidence and support, and to the employees, our gratitude for their continued dedicated efforts which have been a major factor in the Company's success.

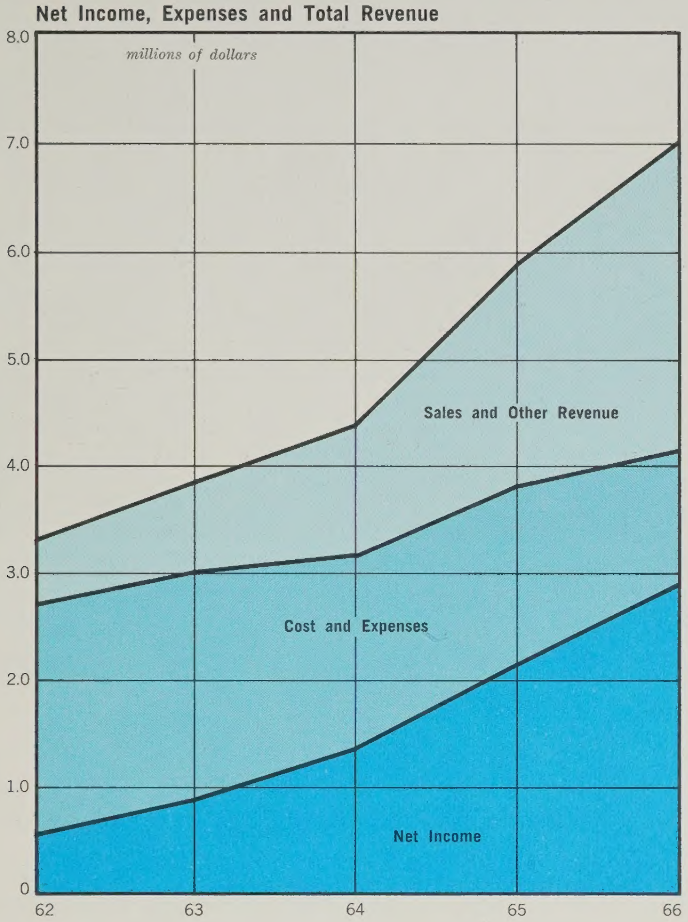
Eugene H. Walet, Jr.
Chairman of the Board

Harold W. Manley
President

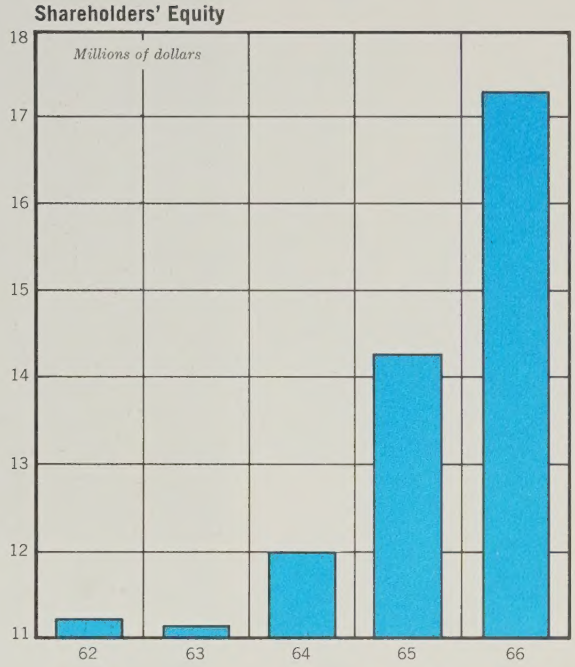
Calgary, Alberta
April 5, 1967

COMPANY GROWTH

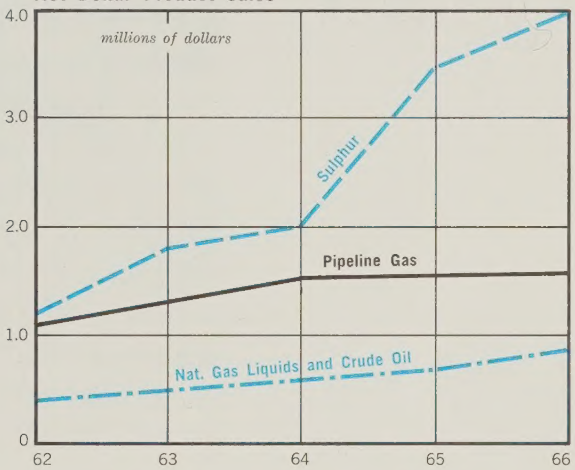
Net Income, Expenses and Total Revenue



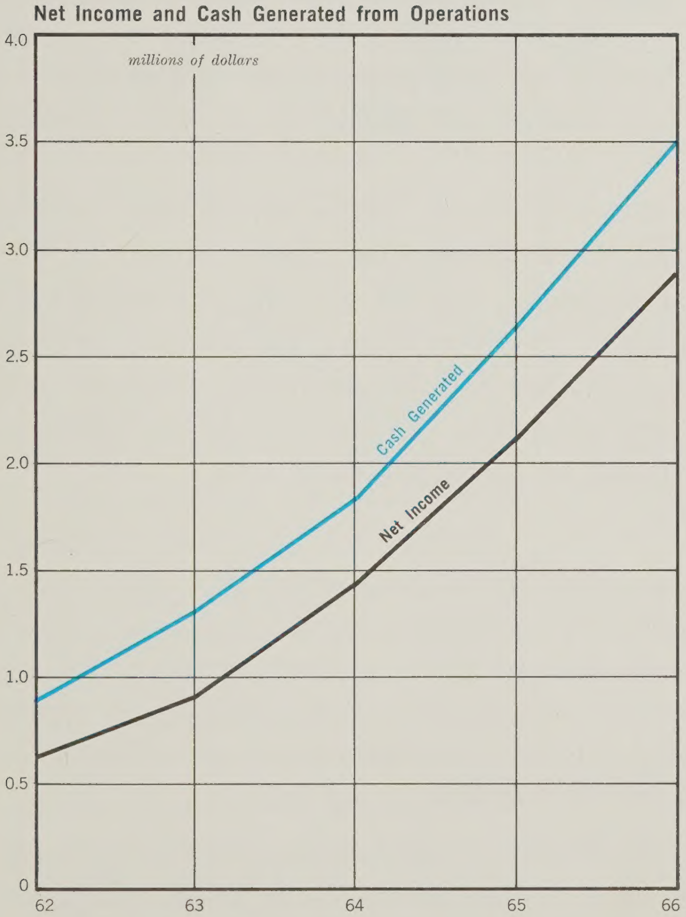
Shareholders' Equity



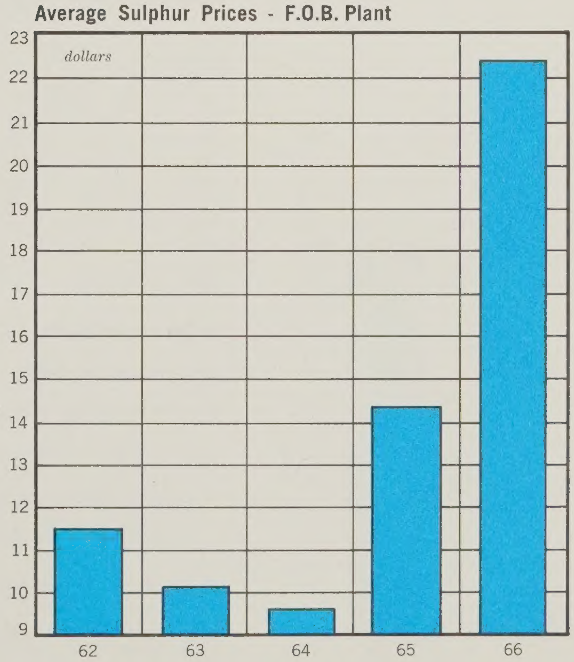
Net Dollar Product Sales



Net Income and Cash Generated from Operations



Average Sulphur Prices - F.O.B. Plant



Calgary Head Office Key-Men Meeting: (left to right) – G. Macauley, Chief Geologist; R. P. Havelock, Asst. Counsel; R. B. Cowper, Chief Engineer; D. J. Shedden, Treasurer; G. H. Lewis, Vice-President – Plant Operations; H. W. Manley, President; H. B. Shelton, Vice-President – Production-Operations; W. A. Troughton, Vice-President – Counsel and Secretary; C. R. Mikkelborg, Land Manager; and L. P. Brink, Asst. Treasurer.

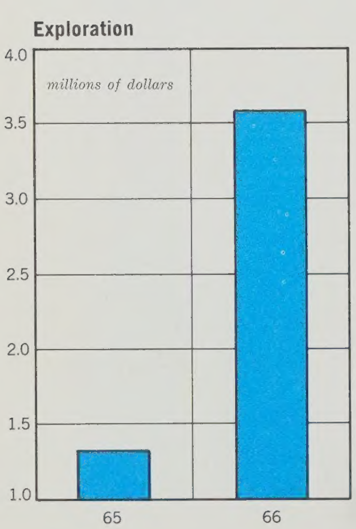
GENERAL REVIEW

EXPLORATION

During 1966 the Company became the manager-operator for an equally shared budget of $6,000,000 with Occidental Petroleum Corporation in a joint program of oil and gas exploration in the Western Canadian sedimentary basins. In addition, the Company was the manager-operator in the East Calgary sour gas trend for joint venture exploration and developments with in excess of 25 other oil and gas companies for a gross expenditure totalling $4,031,000. This diversification of exploration and development operations has required the Company to substantially increase its staff of professional and operating personnel, all of whom have had many years of experience in the modern technological developments of oil and gas field work.

Based on detailed geological analysis assisted by seismic surveys, where available, lands prospective for oil and gas were acquired in the following areas:

Keg River area of Northwestern Alberta; Gilwood Sand trend of North-Central Alberta; Crossfield sour gas trend of Southern Alberta; Jurassic trend of South-western Saskatchewan; Winnipegosis reef trend of Saskatchewan; and, the Belloy Sand area of East Central British Columbia. Exploration and land acquisition during 1966 will accelerate drilling for discoveries during 1967.



ACREAGE HOLDINGS

The Company's total gross acreage land position increased by 282%, from 613,147 at December 31, 1965, to 2,343,192 at December 31, 1966, with the result that the net acres of land held rose by 66%, to 692,827 at year-end from 417,723 acres last year. The net acreage total is the sum of 28,535 developed and 664,292 undeveloped acres. Occidental Petroleum participated with your Company in approximately 94% of the undeveloped acreage.

The following table sets forth by Province, the gross acres in which the Company has varying working interests, the gross acres operated by Jefferson, and by other

Province Developel and Undeveloped	Gross Acres Joint Interest	Gross Acres Operated by Jefferson	Gross Acres Operated by other Companies	Jefferson-Occidental Joint Venture Gross Acres	Jefferson Total Net Acres
DEVELOPED LAND:					
Alberta	63,752	57,792	5,960	Nil	27,807
British Columbia	640	640	Nil	640	192
Saskatchewan	980	980	Nil	Nil	536
Manitoba	Nil	Nil	Nil	Nil	Nil
Subtotal:	65,372	59,412	5,960	640	28,535
UNDEVELOPED LAND:					
Alberta	321,873 * †	258,845	63,028	185,092	107,663 * †
British Columbia	21,169 * †	7,652	13,517	21,169	5,674 * †
Saskatchewan	1,913,276 *	690,189	1,223,087	1,909,096	540,204 *
Manitoba	21,502	21,502	Nil	21,502	10,751
Subtotal:	2,277,820	978,188	1,299,632	2,136,859	664,292
Grand Total:	2,343,192	1,037,600	1,305,592	2,137,499	692,827

* Includes lands held by Drilling Reservation, approximately 25% of which may be retained as leases.

† Includes lands held by Permit or Reservation, approximately 50% of which may be retained as leases.

companies, the gross acres in which Jefferson and Occidental have equal varying working interests, and the Company's net acreage position as of December 31, 1966.

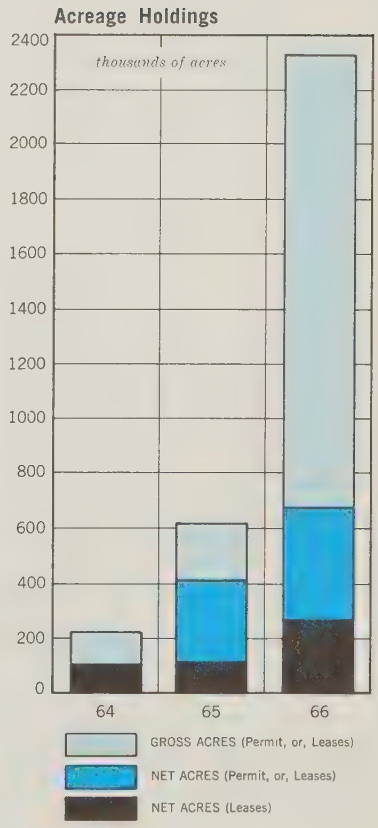
EXPLORATORY AND DEVELOPMENT WELLS DRILLED

The gross footage drilled in exploratory and development wells in joint venture operations was 180,276 feet, representing a total of 24 gross wells. The Company was the manager-operator of 12 exploratory wells equal to 86,812 feet of drilling and 10 developmental wells, representing a total gross footage drilled of 78,945 feet, or 92% of the joint venture wells drilled. The average depth of the exploratory wells was 7,234 feet, and the developmental wells averaged 7,894 feet of depth. At December 31, 1966, there were three exploratory and two developmental wells drilling, not included in the totals for the year.

Six of the exploratory wells discovered new gas reserves. A Belloy Sand exploratory well extended the productive limits of the Stoddart field in East Central British Columbia and established the Company's first gas production operations in that Province. Other exploratory wells which discovered gas reserves were in the sour gas trend of the Calgary-Okotoks area of Southern Alberta. Discoveries were made in both the Devonian-Crossfield zone and the Cretaceous Basal Quartz zone. Additional wells will be drilled in 1967 to define productive limits and the recoverable reserves of these discoveries.

A total of eight developmental gas wells were completed within the Calgary sour gas area supplying gas for processing at the Calgary Petrogas Processing Ltd. plant. Six of these development wells were Crossfield gas zone completions; one well was an Elkton gas zone completion; and one well was a Basal Quartz gas zone completion in the newly established Basal Quartz Calgary gas unit in which your Company has a 37.73% working interest.

A combination of field-wide subsurface research of the Calgary Crossfield producing matrix rock and improved well completion techniques has resulted in increased



WELLS DRILLED	1966 Gross	1966 Net	1965 Gross	1965 Net
Oil	—	—	3.0	1.2
Gas	14	4.2856	8.0	2.7
Non-commercial .	10	3.7960	3.0	1.4
	24	8.0816	14.0	5.3

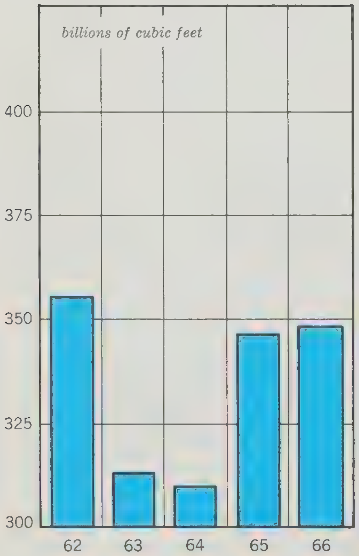
production rates and savings in capital expenditures to obtain required gas well deliverabilities. Because of the advancement of the date for contracted pipe line gas deliveries to November 1, 1967, the required Calgary Crossfield gas well deliveries of 185 million cubic feet per day (3 times 1966 average rate of deliveries) will necessitate completion in 1967 of several additional Crossfield development gas wells.

PRODUCTION

New production records of Company's working interest products were established in 1966 for pipe line gas sales, stabilized distillates, and liquefied petroleum gases. Pipe line gas sales totalled 11.384 billion cubic feet, approximately a 1% increase over 1965, despite the fact that new plant capacities were not available for increased deliveries. Condensate and liquefied petroleum gases increased to almost 78% over 1965 for a total of 363,619 barrels. Crude oil working interest production declined to 50,265 barrels in 1966.

The Company's working interest elemental sulphur production at the sour gas processing plants at Calgary Petrogas, Coleman, Wimborne in Alberta, and the Peace River Plant in British Columbia, declined approximately 3% to 156,147 Long Tons, compared to its 1965 production of 161,330 Long Tons. The completion of the expanded Calgary Petrogas Plant capacity in April, 1967, will substantially increase the Company's working interest production of sulphur, liquid hyrocarbons and pipe line sales gas.

Reserves — Pipeline Gas 1962-66



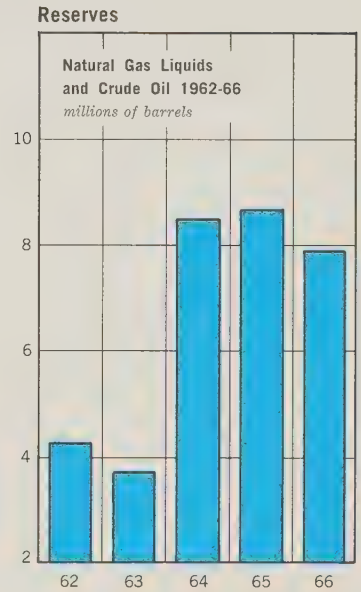
RESERVES

The Company's recoverable working interest reserves at December 31, 1966, as estimated by independent reservoir petroleum engineering firms, were as follows:

(a) Pipe line sales gas increased to 349.3 billion cubic feet, as compared to 343.7 billion cubic feet at the end of 1965, after deducting the 1966 production of 11.4 billion cubic feet.

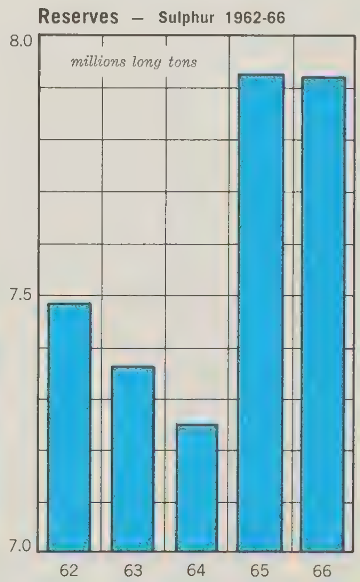
(b) The total of natural gas liquids and crude oil reserves decreased to 7,954,600 barrels, or 642,400 barrels which includes the 413,900 barrels of production in 1966; and includes the effects of retrograde condensation of gas liquids in the Calgary Elkton gas unit, as well as conservative adjustment of crude oil recoverable reserves.

(c) The estimated recoverable reserves of sulphur are 7,913,600 Long Tons after taking into account the 1966 production of 156,100 Long Tons, as compared to the 1965 year-end estimated reserves of 7,924,000 Long Tons.



GAS PROCESSING AND SULPHUR RECOVERY PLANT OPERATIONS

The Company's sour gas processing and sulphur recovery plant operations for the production of finished commercial products of elemental sulphur, pipe line sales gas, and gas liquid products, continued to be expanded in 1966 to insure efficient operations and increased profitable levels of current and future net revenues. The three plants operated by your Company are: the 100% owned sulphur manufacturing plants located near Taylor, British Columbia, and near Coleman, Alberta; and the 30.9% owned Petrogas Processing Ltd. gas plant processing complex near Calgary, Alberta. Also, a small non-operated working interest is owned (1.29%) in the Wimborne gas processing and sulphur recovery plant.



At both the Peace River and Coleman plants, the producers of the concentrated hydrogen sulphide gas, which is converted to elemental sulphur, installed certain new facilities late in 1966 that have increased the Company's sulphur plant production. A field gas compressor installed in the Savanna Creek gas field supplying gas to our Coleman plant indicates an increase in sulphur production of in excess of 25% over this plant's prior daily production rates. The Westcoast Transmission gas processing plant has installed acid gas coolers on the concentrated hydrogen sulphide gas stream supply line to our Peace River Plant which has improved the sulphur conversion efficiencies with corresponding higher yields of sulphur.

The Petrogas Processing Ltd. Calgary gas plant complex for which your Company provides the management, supervision, technical and operating personnel, has had several important developments in 1966, including:

(a) Field construction of the expanded plant acid treating gas extraction and sulphur manufacturing units has progressed to the point that these units are expected to be in operation by mid-April, 1967, approximately forty-five days in advance of earlier completion schedule forecasts. At the designed sulphur production capacity of 2,000 long tons per day, the Petrogas sulphur plant design capacity will be the largest plant producing elemental sulphur from sour natural gas in North America. The early completion of the sulphur manufacturing unit is expected to increase the Petrogas plant sulphur production to approximately 500,000 long tons in 1967, as compared to its 1966 production of 229,179 long tons.

(b) The Trans-Canada Pipe Line gas purchase contract with Petrogas, requiring 30 million cubic feet of average/day deliveries, has been accelerated from November 1, 1968, to a firm "take or pay" basis starting on November 1, 1967. This firm contract, plus the Westcoast Transmission Company's contract deliveries of a daily annual average of 125 million cubic feet per day starting November 1, 1967, assures Petrogas of an average of 155 million cubic feet per day per year, with peak demand deliveries of 196 million cubic feet per day. Because of the accelerated pipe line gas sales from the Calgary Petrogas Plant, it is anticipated that this plant will be providing an annual rate of in excess of 600,000 long tons of elemental sulphur in late 1967 and subsequent years.

(c) The Petrogas Processing Ltd. completed plant expansion will have design capacity to process 286 million cubic feet per day of sour gas, 160 million cubic feet per day from the Crossfield gas zone and 126 million cubic feet per day from the Elkton and Basal Quartz gas zones. As the Crossfield gas

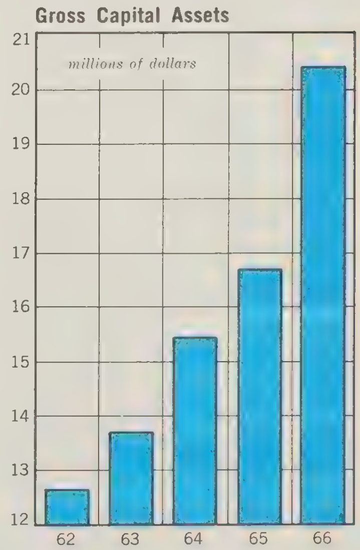
zone daily required deliveries will be nearly two and one-half times greater than the plant's initial design for this gas stream, it has been necessary to install another Crossfield gas gathering system at an estimated capital cost of $3,700,000. To finance the cost of this additional gathering pipe line to the Petrogas plant expansion complex, the shareholders of Petrogas (26), at a special shareholder meeting held on October 20, 1966, unanimously approved the Petrogas Board of Directors' recommendation to issue $3,700,000 of Series B Subordinate 6½% Debentures due in 1987. All shareholders have purchased their percentage of the Petrogas Series B Debentures in proportion to each shareholder's equity interest, as of January 15, 1967. Your Company's cost for its proportion of the Petrogas Series B Debentures was $1,143,375 Canadian Funds.

By April, 1967, approximately 80% of the new Crossfield gas gathering system will be completed and in operation.

FINANCIAL REVIEW

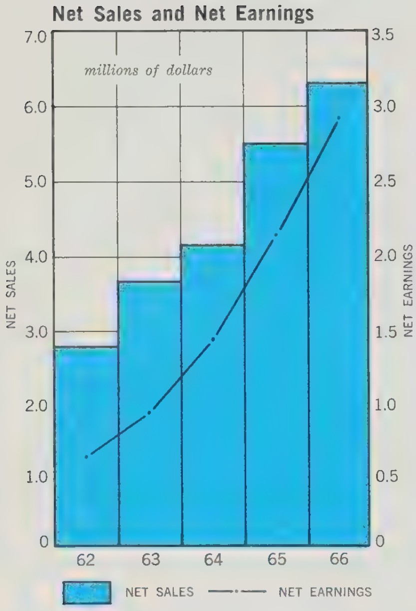
Net earnings for the Company and its consolidated wholly-owned subsidiary attained a record of $2,924,861 equal to a percentage gain of 38% over the net earnings of 1965. Cash generated amounted to $3,481,343 for 1966 compared to $2,582,344 in 1965. The record results for 1966 were achieved through improvements in each of the Company's source of revenues, as set out on page 16 in the Statement of Income. Total revenues exceeded the previous record year of 1965 by nearly $1,140,000.

Cash dividends paid in 1966 on the outstanding shares increased 17% to $740,799 equal to 32.5c/share, which compares to the 1965 cash dividends paid of $634,089 equal to 30c per share. A 4% stock dividend was declared on June 17, 1966, and was distributed on July 15, 1966. The market value of the stock dividend on its date of declaration was equivalent to $1.22 per share.

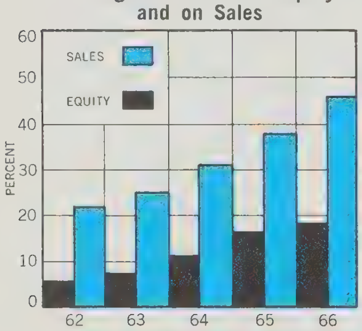


	1966	% of Revenue	1965	% of Revenue
Total Revenue (Net of Royalties)	$7,048,087	100.0%	$5,910,102	100.0%
Cost of Product Sold	$2,689,135	38.2%	$2,499,067	42.2%
Interest Expense	594,579	8.4%	434,985	7.4%
All Other Expense	839,512	11.9%	851,150	14.4%
	$4,123,226	58.5%	$3,785,202	64.0%
Net Income	2,924,861	41.5%	2,124,900	36.0%
	$7,048,087	100.0%	$5,910,102	100.0%

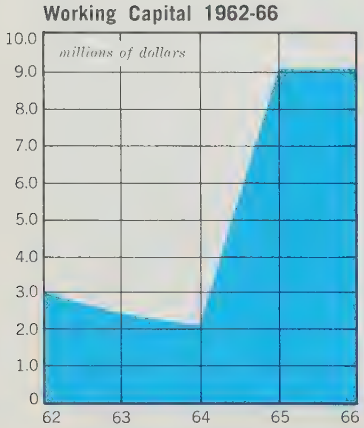
Net Sales and Net Earnings



Percent Earned on Average Shareholders' Equity and on Sales



Working Capital 1962-66



98,912 Series "B" Warrants were converted to the Company's common shares in 1966. 7,520 shares of key employee stock options were exercised during 1966. The Series "B" Warrant conversions and employee stock options exercised provided the Company funds totalling $889,814 in 1966. At December 31, 1966, shares outstanding were 2,350,026 compared to 2,153,210 shares outstanding on the same date in 1965.

The Company made capital expenditures for the twelve months of 1966 totalling $3,797,691 which compares to expenditures in 1965 of $1,471,222. At December 31, 1966, authorities for expenditures approved totalled $4,288,000 (Company's share).

At the year-end of 1966, the Company had approximately $2,600,000 cumulative drilling and exploration costs deductible for income tax purposes in future years; therefore, no provision for income taxes is required.

The Company's working capital position at the year-end of 1966 is $9,054,789 and compares to the December 31, 1965 of $9,111,754, or a decrease of only $56,965 despite the fact of substantial increases in capital expenditures in 1966 and higher cash dividend payments. Cash on hand, including short-term investments, at December 31, 1966, was $7,032,092. Surplus cash is invested at all times in short-term bank securities. Such investments were earning in U.S. dollars, as high as 6-5/8%, and in Canadian dollars, over 6% at the year-end. The ratio of current assets to current liabilities at December 31, 1966, was 6.5 to 1.0, and indicates the strong financial position of your Company.

As a direct result of expanded exploration development and plant activities of the Company, the number of full time employees has increased by 31; from 157 in December 1965, to 188 in December 1966. Eighty-three of these employees are represented by certified independent employee association agreements, whereas eleven employees are represented by an international union agreement with the Company. Management-Employee labor relations have been excellent during 1966.

The above comparative table of 1966 and 1965, for financial results of the Company, in relation to total revenues versus percentages of costs and net profits realized, is submitted to illustrate your Company's continued efficient operations and growth.

JEFFERSON LAKE PETROCHEMICALS OF CANADA LTD.
AND WHOLLY-OWNED SUBSIDIARY

CONSOLIDATED STATEMENT OF SOURCE AND APPLICATION OF FUNDS

FOR THE YEARS ENDED DECEMBER 31, 1966 AND 1965
(Canadian dollars)

SOURCE OF FUNDS:	1966	1965
Net income	$ 2,924,861	$ 2,124,900
Add: Depreciation, depletion, amortization and other non-cash items	556,482	457,444
Net cash income	3,481,343	2,582,344
Proceeds of 5½% notes	—	10,767,419
Proceeds of common stock issued on exercise of warrants and employee stock options	889,814	814,135
Other	177,691	34,302
	4,548,848	14,198,200

APPLICATION OF FUNDS:		
Acquisition of fixed assets—		
Leasehold interests	1,916,930	333,425
Well and exploratory costs	1,528,678	891,225
Lease and well equipment	158,667	139,901
Sulphur plant equipment	73,329	74,441
Other equipment	120,087	32,230
	3,797,691	1,471,222
Cash dividends	740,799	634,089
Reduction in long-term debt	5,688	4,720,377
Other	61,635	367,995
	4,605,813	7,193,683
Resulting in an increase (decrease) in working capital of	(56,965)	7,004,517
Working capital, beginning of year	9,111,754	2,107,237
Working capital, end of year	$ 9,054,789	$ 9,111,754

JEFFERSON LAKE PETROCHEMICALS OF CANADA LTD.
AND WHOLLY-OWNED SUBSIDIARY

CONSOLIDATED

DECEMBER 3
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ASSETS

	1966	1965
CURRENT ASSETS:		
Cash (Note 2)	$ 6,873,654	$ 6,556,914
Short-term investment, at estimated realizable value (Note 3)	158,438	698,438
Accounts receivable—		
Trade and other	1,246,831	1,538,509
Occidental Petroleum Corporation	438,131	305,488
Petrogas Processing Ltd.	823,953	732,492
Inventories—		
Sulphur, at average production cost which is below market	368,900	427,391
Tubular goods and supplies, at cost	764,518	76,258
Prepaid expenses	18,930	20,701
Total current assets	10,693,355	10,356,191
INVESTMENTS AND OTHER ASSETS, at cost:		
Petrogas Processing Ltd. (Note 4)	463,530	463,530
Pacific Asbestos Corporation, formerly Jefferson Lake Asbestos Corporation, (Note 5)	807,548	807,548
Less—Provision for loss	(807,548)	(807,548)
Refundable deposits and other investments	89,653	32,104
	553,183	495,634
CAPITAL ASSETS, at cost (Note 1):		
Sulphur extraction plants	3,638,738	3,568,082
Oil and gas properties—		
Leasehold interests and contract rights	9,790,513	7,897,417
Well costs	5,820,234	4,317,776
Well, lease and other equipment	1,276,031	1,030,056
	20,525,516	16,813,331
Less—Accumulated depreciation	1,105,406	997,874
Accumulated depletion	1,416,825	992,459
	2,522,231	1,990,333
	18,003,285	14,822,998
DEFERRED CHARGES (Note 1):		
Debt discount, premium and financing costs, less amortization of $106,967 ($80,285—1965)	495,838	522,520
Other	75,443	156,540
	571,281	679,060
	$29,821,104	$26,353,883

BALANCE SHEET

66 AND 1965
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LIABILITIES AND SHAREHOLDERS' EQUITY

	1966	1965
CURRENT LIABILITIES:		
Accounts payable	$ 1,161,844	$ 806,006
Accrued interest payable	248,360	205,952
Other accrued liabilities	220,481	225,968
Current portion of long-term liabilities	7,881	6,511
Total current liabilities	1,638,566	1,244,437
UNREALIZED GAIN ON FOREIGN EXCHANGE	29,813	24,909
LONG-TERM DEBT (less current portion):		
5½% notes due August 1, 1985 (Note 6)	10,769,919	10,767,419
5¼% mortgage repayable in monthly instalments of $909, including interest, to March 1, 1973	47,553	55,741
	10,817,472	10,823,160
SHAREHOLDERS' EQUITY (Notes 7 and 8):		
Capital stock, common shares of a par value of $1 each:		
Authorized—6,000,000 shares		
Outstanding—2,350,026 shares in 1966, 2,153,210 shares in 1965	2,350,026	2,153,210
Capital in excess of par value, per accompanying statement	12,814,022	9,392,733
Series B warrants to purchase shares	19,021	24,416
	15,183,069	11,570,359
Retained earnings, per accompanying statement	2,152,184	2,691,018
	17,335,253	14,261,377
	$29,821,104	$26,353,883

APPROVED ON BEHALF OF THE BOARD:

Director

Director

JEFFERSON LAKE PETROCHEMICALS OF CANADA LTD.
AND WHOLLY-OWNED SUBSIDIARY

CONSOLIDATED STATEMENT OF INCOME AND RETAINED EARNINGS

FOR THE YEARS ENDED DECEMBER 31, 1966 AND 1965
(Canadian dollars)

	1966	1965
Sales and other revenue:		
Gas and oil sales	$ 2,344,470	$ 2,187,779
Sulphur sales, less freight and handling charges	3,984,867	3,353,011
Interest	370,300	151,643
Other income	348,450	217,669
	7,048,087	5,910,102
Costs and expenses (Note 10):		
Cost of products sold—		
Gas and oil	1,776,795	1,518,992
Sulphur	912,340	980,075
Selling and administrative expenses	756,034	806,975
Interest on long-term debt	594,579	434,985
Other expenses	83,478	44,175
	4,123,226	3,785,202
Net income for the year (Note 9) *	2,924,861	2,124,900
Retained earnings, beginning of year	2,691,018	1,200,207
	5,615,879	3,325,107
Less—		
Stock dividend of 4% (89,100 shares at $30.56 per share, the average market price on the date of declaration)	2,722,896	—
Cash dividends paid — $.32½ per share ($.30 — 1965)	740,799	634,089
Retained earnings, end of year	$ 2,152,184	$ 2,691,018

* Net income per share (based on the weighted average of number of shares outstanding during the year) — 1966 — $1.29, 1965 — $1.00.

JEFFERSON LAKE PETROCHEMICALS OF CANADA LTD.
AND WHOLLY-OWNED SUBSIDIARY

CONSOLIDATED STATEMENT OF CAPITAL IN EXCESS OF PAR VALUE OF CAPITAL STOCK

FOR THE YEARS ENDED DECEMBER 31, 1966 AND 1965
(Canadian dollars)

	1966	1965
Balance, beginning of year	$ 9,392,733	$ 8,684,822
Add:		
Capital in excess of par value arising from:		
Exercise of Series B warrants and employee stock options	787,493	707,911
4% stock dividend	2,633,796	—
Balance, end of year	$12,814,022	$ 9,392,733

JEFFERSON LAKE PETROCHEMICALS OF CANADA LTD.
AND WHOLLY-OWNED SUBSIDIARY

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 1966

NOTE 1 — ACCOUNTING POLICIES:

The consolidated statements include the accounts of the Company and its wholly owned subsidiary, Jefferson Minerals Corporation, which operates in the United States.

In accounting for oil and gas properties, the Company capitalizes all costs and expenses of acquiring, exploring for and developing oil, gas and sulphur reserves. Provisions for depreciation and depletion of the aggregate unrecovered portion of these costs (including preproduction expenses and costs of non-producing properties) have been computed on the basis of the ratio of the aggregate oil, gas and sulphur production to the aggregate estimated recoverable oil, gas and sulphur reserves.

Depreciation of sulphur plants and related equipment is provided by the unit-of-production method.

Debt discount, premium and financing costs, including such costs relating to long-term debt redeemed, are being amortized by equal annual charges over the life of the 5½% notes.

NOTE 2 — CASH:

At December 31, 1966 cash included $6,696,562 of short-term interest bearing bank deposits.

NOTE 3 — SHORT-TERM INVESTMENT:

The short-term investment is a secured note for $200,000 (past due since August 3, 1965) of Atlantic Acceptance Corporation which was placed in receivership on June 17, 1965. Based on the latest report of the Receiver a provision of $40,000 has been made for the estimated loss on realization of this investment.

NOTE 4 — PETROGAS PROCESSING LTD.:

The Company and certain other working interest mineral owners in the Calgary field incorporated Petrogas Processing Ltd. to construct and own the field facilities and plants for processing field gas from the Calgary field for the recovery of commercial pipeline gas, condensates, liquefied petroleum gases and elemental sulphur. These facilities and plants are operated by the Company, which has a 30.9% interest in Petrogas Processing Ltd.

Subsequent to December 31, 1966 the Company purchased 6½% Subordinate Debentures Series B, due January 15, 1987, of Petrogas Processing Ltd. in the amount of $1,143,375.

NOTE 5 — PACIFIC ASBESTOS CORPORATION (formerly Jefferson Lake Asbestos Corporation):

Due to financial difficulties encountered by Pacific Asbestos Corporation, management deemed it prudent to provide in 1963 for a 100% loss on the investment of $807,548 in that company. The Company's counsel have expressed the opinion that the indebtedness of Pacific Asbestos to the Company ranks equally with other unsecured indebtedness, after certain secured bank loans and ahead of certain subordinated indebtedness. Management is unable to determine at this time whether any recovery of the Company's investment will be forthcoming.

NOTE 6 — 5½% NOTES PAYABLE:

The 5½% notes of $10,000,000 (United States dollars) due August 1, 1985 issued to Occidental Petroleum Corporation are subject to required prepayment, without penalty, of 1/20 of the principal amount on August 1 in each of the years 1970 to 1980 inclusive, and .09 of the principal amount on August 1 in each of the years 1981 to 1984 inclusive, and to prepayment at the Company's option as specified in the Note agreements.

Under the terms of the Note agreements certain limited restrictions are imposed on the Company. Such restrictions had no practical effect at December 31, 1966.

NOTE 7 — WARRANTS:

The Series B warrants, which are not redeemable, entitle the holders to purchase common shares of the Company at prices from $9 per share to June 1, 1967 increasing annually by $1 per share to $13 per share to June 1, 1971, subject to reduction if the Company issues or sells common shares (except by way of stock dividend or option granted to a serving officer or employee of the Company) for a consideration less than the subscription price then in effect under the Series B warrants. The warrants also contain anti-dilution provisions in the event of the payment of a stock dividend.

During the year ended December 31, 1966 warrants for 99,988 shares were exercised (98,912 shares for cash and 1,076 shares under the anti-dilution provisions) and at that date warrants for an aggregate of 362,632 shares were outstanding (including 13,947 shares reserved under the anti-dilution provisions as a result of the 4% stock dividend paid during the year).

NOTE 8 — STOCK OPTIONS:

Under the Company's stock option plan a total of 50,000 shares of the Company's authorized and unissued common stock have been reserved for options to be granted to executives and employees of the Company at prices equivalent to the market value on the date of the grant. At December 31, 1966, an additional 666 shares

were reserved under the anti-dilution provisions of the stock option plan as a result of the 4% stock dividend paid during the year. These options expire five years after the date granted and become exercisable in five equal annual instalments, commencing six months after the date granted. During the year ended December 31, 1966 options on 7,728 shares were exercised (7,520 shares at $5.8125 to $18.80 per share and 208 shares under the anti-dilution provisions). At December 31, 1966 options for 17,306 shares were outstanding (16,640 shares at prices ranging from $5.8125 to $29.901 and 666 shares under the anti-dilution provisions).

Options for an additional 1,500 shares of stock may be granted under the stock option plan.

NOTE 9 — INCOME TAXES:

Under Canadian income tax law, drilling and exploration expenditures may be deducted from income in the year of expenditure or, if such expenditures exceed the income for the year, the excess may be carried forward indefinitely to be applied against the income of future years. No provision for income taxes was required for the period ended December 31, 1966 and at that date an excess of drilling and exploration expenditures of approximately $2,600,000 was available to be carried forward against any future income of the Company for tax purposes.

NOTE 10 — SUPPLEMENTARY INCOME STATEMENT INFORMATION:

Management fees—

Selling and administrative expenses for 1966 include, (a) salaries and other remuneration of $58,723 paid by the Company to directors, (b) management services provided by Jefferson Lake Sulphur Company at a cost to the Company of $60,000, (c) a fee of $1 per ton of sulphur sold on behalf of the Company by Jefferson Lake Sulphur Company.

Depreciation, depletion and amortization for 1966—

Depreciation, depletion and amortization have been charged in the accounts as follows:

Depreciation—	
Cost of products sold—	
Gas and oil	$ 30,019
Sulphur	51,794
Selling and administrative expenses	26,586
Other expenses	11,550
Other income	4,303
	$124,252
Depletion—	
Cost of products sold—Gas and oil	$424,366
Amortization of debt discount, premium and financing costs—	
Other expenses	$ 26,682

AUDITORS' REPORT

To the Shareholders of Jefferson Lake Petrochemicals of Canada Ltd.

We have examined the consolidated balance sheet of Jefferson Lake Petrochemicals of Canada Ltd. and its wholly owned subsidiary as at December 31, 1966 and the consolidated statements of income and retained earnings and source and application of funds for the year then ended. Our examination was made in conformity with generally accepted auditing standards and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion these financial statements present fairly the financial position of the companies as at December 31, 1966 and the results of their operations and the source and application of their funds for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Calgary, Alberta
January 27, 1967

PRICE WATERHOUSE & CO.
Chartered Accountants

JEFFERSON LAKE PETROCHEMICALS OF CANADA LTD.
AND WHOLLY-OWNED SUBSIDIARY

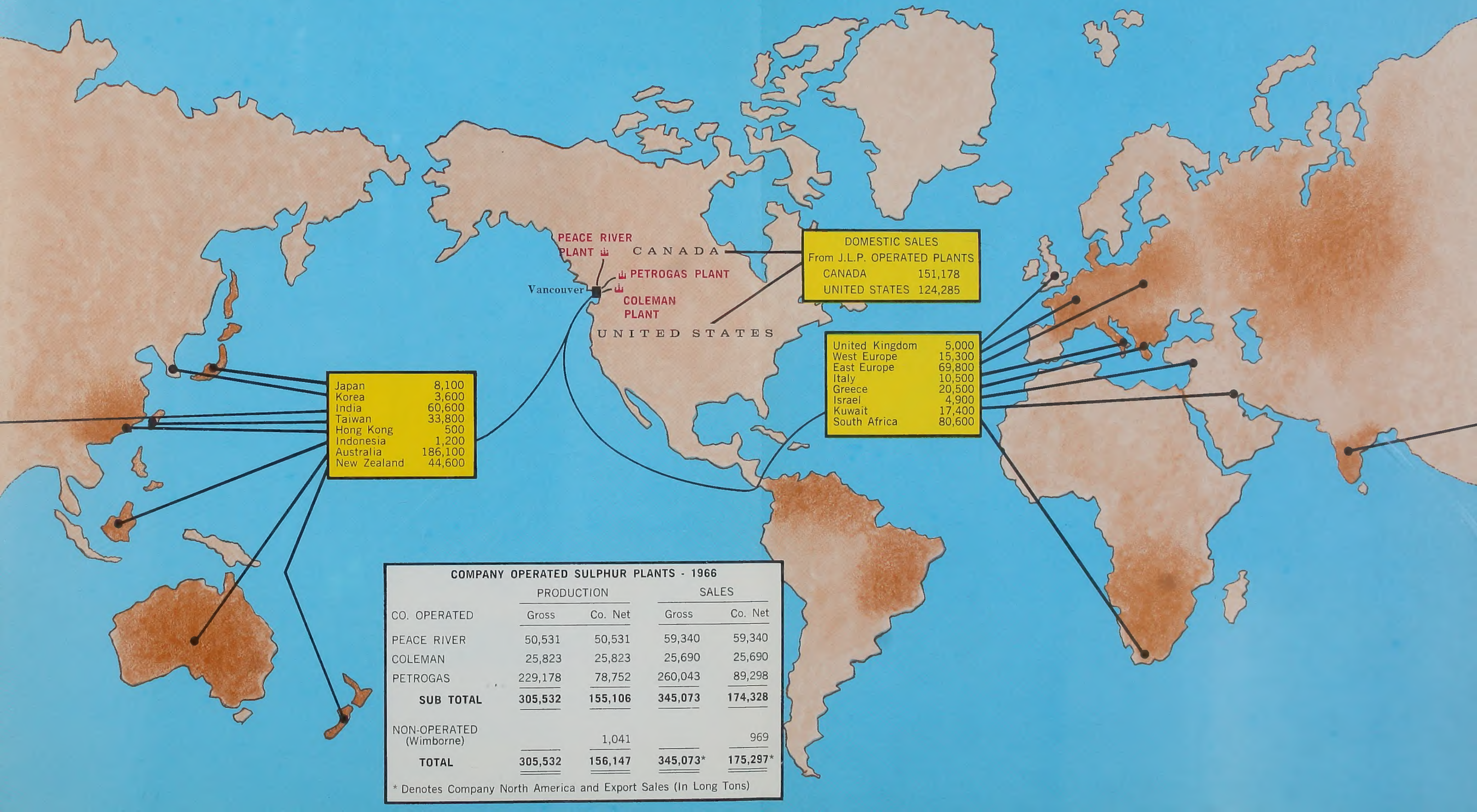
FIVE YEAR FINANCIAL AND OPERATING REVIEW*

		1966	1965	1964	1963	1962
FINANCIAL DATA	Gross Operating Income	$ 7,048	5,910	4,253	3,827	2,976
	Net Income Before Special Credits	$ 2,925	2,125	1,172	819	385
	Per Share	$ 1.29	1.00	.57	.40	.19
	Net Income Including Special Credits	$ 2,925	2,125	1,354	933	613
	Per Share	$ 1.29	1.00	.66	.46	.30
	Dividend Declared Per Share	$ .32½	.30	.27½	.12½	—
	Working Capital	$ 9,055	9,112	2,107	2,373	2,986
	Long Term Debt (Excluding Current Portion)	$10,817	10,823	4,776	4,628	4,943
	Shareholders' Equity	$17,336	14,261	11,956	11,122	11,223
GROSS PROPERTY ACCOUNTS	Lease Acquisition and Carrying Costs	$ 9,791	7,897	7,649	6,967	6,685
	Wells and Field Equipment	$ 6,640	5,061	4,214	3,266	2,488
	Exploration	$ 162	110	55	40	23
	Plants	$ 3,639	3,568	3,433	3,439	3,488
	Other	$ 294	177	152	124	51
		$20,526	16,813	15,503	13,836	12,735
CAPITAL EXPENDITURES	Lease Acquisition and Carrying Costs	$ 1,917	333	705	264	143
	Wells and Field Equipment	$ 1,620	977	857	852	1,101
	Exploration	$ 63	55	15	18	23
	Plants	$ 78	74	76	5	178
	Other	$ 120	32	44	77	26
		$ 3,798	1,471	1,697	1,216	1,471
RESERVES	Pipeline Gas (Billions of Cubic Feet)	349.3	343.7	312.3	314.5	369.0
	Natural Gas Liquids and Crude Oil (Thousands Barrels)	7,954.6	8,597.0	8,493.0	3,730.0	4,341.0
	Sulphur (Thousands Long Tons)	7,913.6	7,924	7,239	7,361	7,449
PRODUCTION	Field Gas (Billions of Cubic Feet)	16.3	15.6	15.4	13.2	11.1
	Pipeline Gas (Billions of Cubic Feet)	11.4	11.3	10.8	9.3	8.2
	Natural Gas Liquids and Crude Oil (Thousands Barrels)	413.9	265.5	221.8	177.2	154.2
	Sulphur (Thousands Long Tons)	156.1	161.3	184.9	172.2	149.8
SALES	Pipeline Gas (Billions of Cubic Feet)	11.4	11.3	10.8	9.3	8.2
	Natural Gas Liquids and Crude Oil (Thousands Barrels)	414.9	264.1	221.0	176.2	154.3
	Sulphur (Thousands Long Tons)	175.3	225.7	203.5	168.2	94.0
WELL DATA	Footage Drilled—Net	65,482	35,622	34,146	42,338	57,863
	Net Wells Capable of Production—Gas	13.0	7.6	5.2	5.1	4.8
	Oil	7.9	10.8	10.6	5.0	1.4
		20.9	18.4	15.8	10.1	6.2
LAND HOLDINGS (Leases, Reservations and Permits)	Gross Acres (Thousands of Acres)	2,343.2	613.1	224.3		
	Net Acres (Thousands of Acres)	692.8	417.7	88.9	74.3	97.1
EMPLOYEES AND SHAREHOLDERS	Shares Outstanding at December 31	2,350,026	2,153,210	2,041,408	2,034,188	2,029,498
	Shareholders (Number of Shareholders)	3,744	3,238	2,454	2,334	2,282
	Employees (Number of Employees)	188	157	128	109	109

* With the exception of per share figures, dollar amounts are in thousands.

WORLD-WIDE EXPORT OF CANADIAN SULPHUR • 1966 562,000 LONG TONS

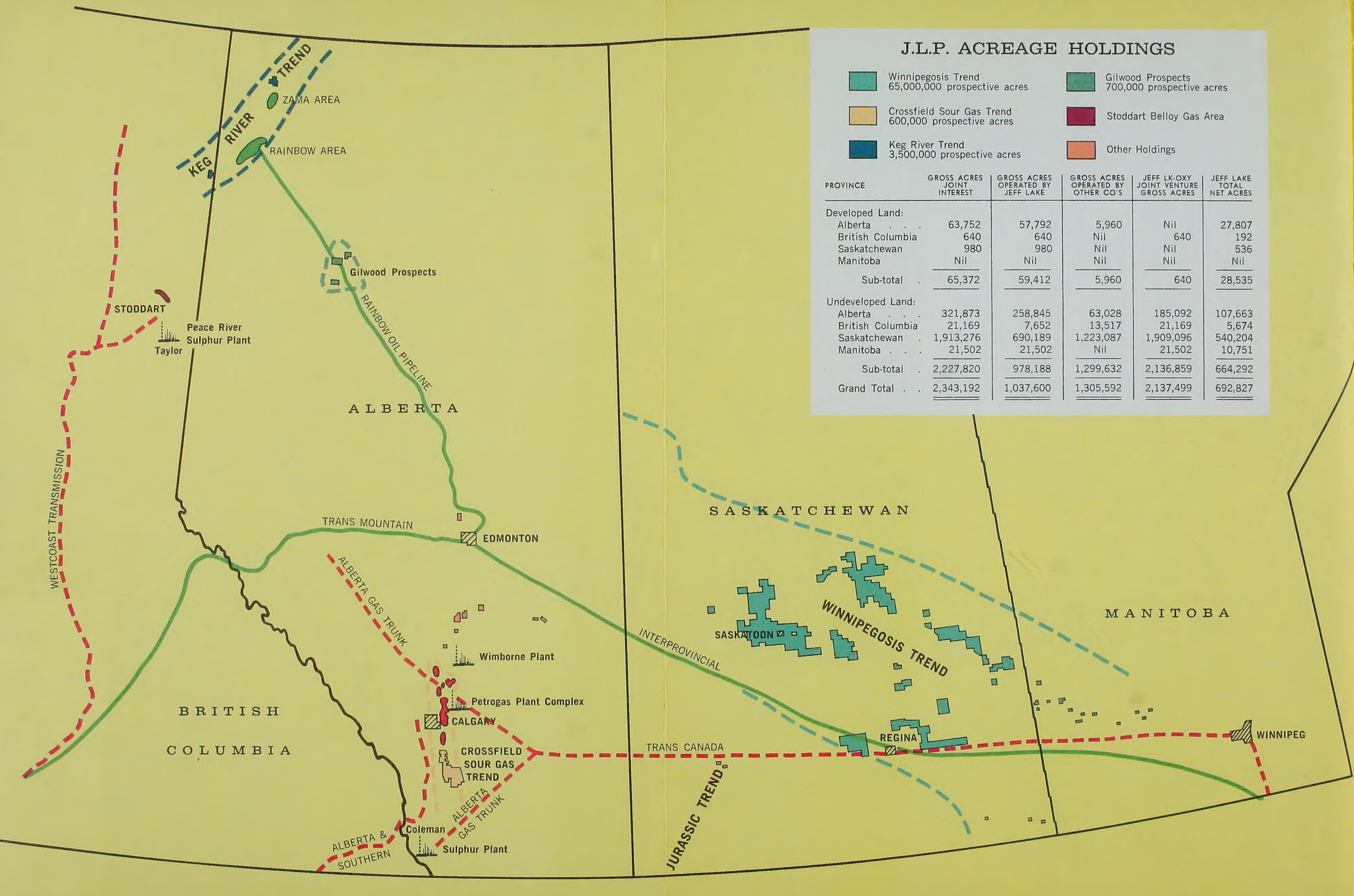
FROM JEFFERSON LAKE OPERATED PLANTS 69,610 LONG TONS – 12.4%



COMPANY OPERATED SULPHUR PLANTS - 1966

	PRODUCTION		SALES	
CO. OPERATED	Gross	Co. Net	Gross	Co. Net
PEACE RIVER	50,531	50,531	59,340	59,340
COLEMAN	25,823	25,823	25,690	25,690
PETROGAS	229,178	78,752	260,043	89,298
SUB TOTAL	**305,532**	**155,106**	**345,073**	**174,328**
NON-OPERATED (Wimborne)		1,041		969
TOTAL	**305,532**	**156,147**	**345,073***	**175,297***

* Denotes Company North America and Export Sales (In Long Tons)



J.L.P. ACREAGE HOLDINGS

- Winnipegosis Trend — 65,000,000 prospective acres
- Gilwood Prospects — 700,000 prospective acres
- Crossfield Sour Gas Trend — 600,000 prospective acres
- Stoddart Belloy Gas Area
- Keg River Trend — 3,500,000 prospective acres
- Other Holdings

PROVINCE	GROSS ACRES JOINT INTEREST	GROSS ACRES OPERATED BY JEFF LAKE	GROSS ACRES OPERATED BY OTHER CO'S	JEFF LK-OXY JOINT VENTURE GROSS ACRES	JEFF LAKE TOTAL NET ACRES
Developed Land:					
Alberta . . .	63,752	57,792	5,960	Nil	27,807
British Columbia	640	640	Nil	640	192
Saskatchewan	980	980	Nil	Nil	536
Manitoba	Nil	Nil	Nil	Nil	Nil
Sub-total .	65,372	59,412	5,960	640	28,535
Undeveloped Land:					
Alberta . . .	321,873	258,845	63,028	185,092	107,663
British Columbia	21,169	7,652	13,517	21,169	5,674
Saskatchewan .	1,913,276	690,189	1,223,087	1,909,096	540,204
Manitoba . . .	21,502	21,502	Nil	21,502	10,751
Sub-total .	2,227,820	978,188	1,299,632	2,136,859	664,292
Grand Total . .	2,343,192	1,037,600	1,305,592	2,137,499	692,827

TRANSFER AGENTS

National Trust Company, Limited
Toronto, Calgary, Montreal, Winnipeg and Vancouver

The First National City Bank
New York, N.Y.

REGISTRARS

National Trust Company, Limited
Toronto, Calgary, Montreal, Winnipeg and Vancouver

The Chase Manhattan Bank
New York, N.Y.

COUNSEL

McDonald & Considine, Barristers
Calgary, Alberta, Canada

CHARTERED ACCOUNTANTS

Price Waterhouse & Co.
Calgary, Alberta, Canada

ALCRAFT · CALGARY
LITHOGRAPHED IN CANADA